

**ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE**

March 1, 2022

1:35 p.m.

DRAFT

MEMBERS PRESENT

Senator Robert Myers, Chair
Senator Mike Shower, Vice Chair
Senator Click Bishop
Senator Jesse Kiehl

MEMBERS ABSENT

Senator Peter Micciche

COMMITTEE CALENDAR

SENATE BILL NO. 218

"An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance the replacement of the Alaska Railroad Corporation's passenger dock and related terminal facility in Seward, Alaska; and providing for an effective date."

- MOVED SB 218 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

3

BILL: SB 218

SHORT TITLE: LEG. APPROVAL: AK RAILROAD REVENUE BONDS

SPONSOR(s): SENATOR(s) MICCICHE

02/22/22	(S)	READ THE FIRST TIME - REFERRALS
02/22/22	(S)	TRA, FIN
03/01/22	(S)	TRA AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

KONRAD JACKSON, Staff
Senator Peter Micciche
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Co-presented the sponsor statement for SB 218 on behalf of the sponsor.

MADISON GOVIN, Staff
Senator Peter Micciche
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Co-presented the sponsor statement for SB 218 on behalf of the sponsor.

BILL O'LEARY, President & Chief Executive Officer
Alaska Railroad Corporation
Anchorage, Alaska

POSITION STATEMENT: Presented a PowerPoint on the Seward Passenger Dock project funding in SB 218.

BARBARA AMY, Chief Financial Officer
Alaska Railroad Corporation
Anchorage, Alaska

POSITION STATEMENT: Answered questions on SB 218 on behalf of the Alaska Railroad Corporation.

TIM SULLIVAN, Director of External Affairs
Alaska Railroad Corporation
Anchorage, Alaska

POSITION STATEMENT: Answered questions on the Seward Passenger Dock project in SB 218.

JANETTE BOWER, City Manager
City of Seward
Seward, Alaska

POSITION STATEMENT: Testified in support of SB 218 due to the economic benefits for the community.

PRESTON CARNAHAN, Director of Destination Development
Royal Caribbean Cruises Ltd.
Seattle, Washington

POSITION STATEMENT: Testified in support of SB 218 as needed infrastructure for the cruise industry.

TOM TOUGAS, representing self
Seward, Alaska

POSITION STATEMENT: Testified in support of SB 218 for the economic benefits for the community.

ACTION NARRATIVE

[1:35:57 PM](#)

CHAIR ROBERT MYERS called the Senate Transportation Standing Committee meeting to order at 1:35 p.m. Present at the call to order were Senators Kiehl, Shower, and Chair Myers. Senator Bishop arrived as the meeting was in progress.

SB 218-LEG. APPROVAL: AK RAILROAD REVENUE BONDS

[1:36:26 PM](#)

CHAIR MYERS announced the consideration of SENATE BILL NO. 218 "An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance the replacement of the Alaska Railroad Corporation's passenger dock and related terminal facility in Seward, Alaska; and providing for an effective date."

[1:36:58 PM](#)

KONRAD JACKSON, Staff, Senator Peter Micciche, Alaska State Legislature, Juneau, Alaska, paraphrased a portion of the sponsor statement on behalf of the sponsor.

While Alaska Railroad Corporation (ARRC) must seek authority from the Legislature to issue bonds, under AS 42.40.690 the State of Alaska is not liable for the debts of ARRC. Senate Bill 218 would grant the ARRC the legislative authority, as required under AS 42.40.285, to issue bonds of no more than \$60 million to fund the construction of a new passenger terminal facility in Seward, Alaska.

MR. JACKSON stated that this bill relates specifically to the passenger dock and terminal facility, which is critical to the Alaska Railroad Corporation and cruise ships. He said Ms. Govin would provide more details on the bill.

[1:38:15 PM](#)

MADISON GOVIN, Staff, Senator Peter Micciche, Alaska State Legislature, Juneau, Alaska, paraphrased a portion of the sponsor statement on behalf of the sponsor.

The existing passenger terminal facility was constructed in 1966 and has experienced significant corrosion over its half-century lifespan. Associated integrity issues have resulted in an implementation of weight restrictions. While currently safe for restricted service, the dock is clearly nearing the end of its useful life. Eighty-two cruise ships are expected for the 2022 season, with more growth expected in future years. ARRC is working with an

anchor tenant to ensure long-term fiscal stability for the use of the passenger terminal for future cruise ship operations. During the off-season, the terminal facility provides support and moorage space for freight, U.S. Coast Guard, and non-cruise passenger vessels.

Between ARRC revenues and an additional \$60 million bond offering, \$79 million will fund the cost of demolition and construction. The debt service on these bonds will be paid entirely from passenger terminal revenues without State of Alaska liability for the debts of ARRC.

In order to meet the 2024 need for the replacement passenger terminal facility, it is imperative that ARRC coordinate public debt funding by mid-2022.

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BILL O'LEARY, President & Chief Executive Officer (CEO), Alaska Railroad Corporation, Anchorage, Alaska, stated that this project is an exciting project for the Alaska Railroad Corporation (ARRC), the City of Seward, and the Southcentral and Interior Alaska visitor industry.

[1:40:19 PM](#)

SENATOR BISHOP joined the meeting.

[1:40:33 PM](#)

MR. O'LEARY began a PowerPoint on the Seward Passenger Dock project in SB 218. He reviewed slide 1, Alaska AARC Seward Passenger Dock.

- ARRC owns 3 docks in Seward
 - Freight, passenger, and Coal
- Passenger Dock Status
 - Built in 1966
 - 736 ' x 200'
 - Terminal Building on dock
 - Nearing End of Useful Life
- Passenger Info
 - 220,000 + visitors 2019
 - 95 Ship Calls

- Important to ARRC rail service but also to visitor industry as a whole
- 2/3 to 3/4 of cruise passengers to Southcentral Alaska come thorough Seward.

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MR. O'LEARY explained that ARRC is a capital-intensive railroad. It owns 50 locomotives, 50 passenger cars, hundreds of freight cars, and 600 miles of track. ARRC owns three docks in Seward, its southernmost terminus. It has a freight dock, currently under expansion to address growing freight opportunities. It has a coal dock, not currently in use since the coal export has been dormant.

MR. O'LEARY provided the status of the third dock, the passenger dock. It was built in 1966 as a freight dock, constructed on piling, with concrete decking. On the north end of the dock is a 27,000 square foot terminal building used for passenger processing by the cruise lines. It has been well used but corrosion and time have taken their toll. He related that it is still being used but is nearing the end of its useful life. It is key infrastructure for ARRC, and also for the Southcentral and Interior Alaska visitor industry. Prior to COVID-19, the majority of the 250,000 cruise passengers that arrived in Southcentral Alaska in 2019 arrived at this dock. These passengers ride the railroad, rent cars, take motor coaches or fly to locations in the Kenai Peninsula and the Railbelt from Seward to Fairbanks and beyond. He related that the industry forecasted over 80 ship calls in 2022, with continued opportunities as cruise lines expand to cross-gulf activity rather than limiting their cruises to Southeast Alaska.

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MR. O'LEARY reviewed slide 2, AARC Seward Passenger Dock.

- ARRC project to rebuild pier and building
- \$79 million project on tight timeframe to be ready for 2024 cruise season.
- Sources: \$60 million in ARRC revenue bonds (no recourse to state), \$19 million in ARRC cash
- Continuing to look for other options to optimize financing - federal grants or other mechanisms

MR. O'LEARY stated that ARRC has embarked on the project to rebuild and modernize the pier and building in Seward. The plan

includes building a 1,200-foot dock and new building that should meet customer needs for the foreseeable future. ARRC's timeline is aggressive to meet customer needs and handle larger ships in time for the 2024 cruise season. He related that the project cost of \$62 million for the pier and \$17 million for the building, with two primary fund sources, including \$60 million in ARRC revenue bonds and \$19 million in ARRC internal funding from its capital program. He noted that ARRC continues to look at ways to optimize the financial structure. Federal grants or other funds could limit the amount necessary to borrow if it fits into the timing and schedule. This means \$60 million represents ARRC's ceiling, and if it finds a better way, ARRC will issue fewer bonds. The Board of Directors approved the bonding, but ARRC statutes require legislative authorization to issue debt. He emphasized that this debt is not a debt to the state but is solely ARRC's debt. ARRC requested legislative authority in 2015. These requests are typically reserved for larger, more critical issues. The goal is to be in the bond market by the third quarter of 2022.

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MR. O'LEARY turned to slide 3, Seward Passenger Dock.

- Royal Caribbean Group
- Key strategic partner
- Acting as anchor tenant with a long-term arrangement for asset use.
- Legislative action needed this session
- New facility for 2024 season

MR. O'LEARY stated that ARRC entered into a strategic partnership with Royal Caribbean Group, one of the world's largest cruise companies. He related that Royal Caribbean acts as one of the anchor tenants, providing long-term berthing arrangements that provide financial stability to market these bonds effectively. In closing, he emphasized that this project is vital to ARRC. Its mission is to be an agent of economic development for the state, and this project fits within that mission. He characterized it as an essential project to the City of Seward and the Alaska visitor industry.

1:47:59 PM

SENATOR SHOWER asked how ARRC intends to operate through the cruise season while demolishing the dock. He recalled asking at a prior hearing whether ARRC has enough railroad cars.

MR. O'LEARY responded the engineering staff has considered several options that will allow it to operate during the 2022 to 2023 season. He reported that with the initial demolition of portions of the dock immediately after the 2022 cruise season, half of the dock would be available for the 2023 season. During double ship days, it would use the freight dock for overflow capacity. He related that the project should be complete and be available for the 2024 cruise season.

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MR. O'LEARY stated that ARRC works with its Board of Directors to meet the needs of passenger or freight cars, so it can obtain additional cars to meet any demand. He explained that ARRC cannot have overcapacity but must remain self-sustaining per its statute. ARRC continues to project growth on the cruise side, so it is currently engaged in discussions on whether it needs additional assets. First, ARRC must ensure that it is optimizing its current assets, but once it is comfortable with that, it would create the business case, get board approval, and obtain the necessary cars.

[1:52:02 PM](#)

SENATOR SHOWER thanked him for the assurance.

[1:52:25 PM](#)

SENATOR KIEHL asked if ARRC owns the submerged lands, how far off the vessels stand, and whether they would be above the tidelands.

MR. O'LEARY answered that it would be on ARRC tidelands, but he offered to confirm it with staff.

[1:53:14 PM](#)

SENATOR KIEHL acknowledged that he had experienced this with a local project, and it takes time to obtain approval for submerged lands from the state.

[1:53:35 PM](#)

CHAIR MYERS asked if the coal facility would be demolished.

MR. O'LEARY answered no.

[1:54:01 PM](#)

CHAIR MYERS asked if the dock currently could accommodate two ships and if that would continue to be the case.

MR. O'LEARY answered that is correct.

1:54:14 PM

CHAIR MYERS asked how the docks are used in the off-season.

MR. O'LEARY answered that the dock is used for parking overflow from the freight dock and other vessels, including US Coast Guard and University of Alaska. He emphasized that Seward has increased its maritime activity. He related that the passenger dock has quite a bit of use in the off-season.

1:55:14 PM

SENATOR KIEHL asked for the status for dredging the harbor.

MR. O'LEARY answered that the last dredging was done within the last decade. He stated that ARRC engineers were working with customers to ensure that no additional dredging is currently needed. He acknowledged that it was a concern, especially if larger cruise ships used the dock. He related that it has not surfaced as an issue for this project.

SENATOR KIEHL noted he should have asked for the expected dredging frequency and if it is the US Army Corps of Engineers, the City of Seward, or ARRC's responsibility.

MR. O'LEARY offered to provide the information.

1:57:59 PM

CHAIR MYERS noted that ARRC had not used a substantial amount of its bonding authority. He asked for the reason and how that fits into the plans.

BARBARA AMY, Chief Financial Officer, Alaska Railroad Corporation, Anchorage, Alaska, agreed that ARRC has authorizations that it has not used, but she was unfamiliar with each one. She recalled as Mr. O'Leary stated, that ARRC requested bonding in 2015. At the time, ARRC refunded bonds issued in 2006 and 2007 and issued additional bonds for the Positive Train Control Project. She stated ARRC was scheduled to have those bonds repaid next year. She was not sure why ARRC did not use prior authorizations.

CHAIR MYERS offered to follow up offline.

1:59:14 PM

CHAIR MYERS referred to page 2, lines 4-5, states, "The general credit of the Alaska Railroad Corporation and the state may not

be pledged for the repayment of the bonds." He asked why the general credit of the railroad was not being pledged.

MS. AMY responded that ARRC was pursuing project financing, so the cash flow from the dock itself would be the repayment source rather than train revenues or other revenue coming into the Alaska Railroad Corporation (ARRC).

[2:00:04 PM](#)

SENATOR KIEHL asked for the debt term and expectations for the interest rate.

MS. AMY answered that ARRC contemplates 30-year financing, and it anticipates an interest rate between 3.75 to 4.25 percent.

[2:00:47 PM](#)

SENATOR KIEHL asked whether it was the true interest cost.

MS. AMY answered yes, it would be the true interest cost.

[2:01:18 PM](#)

SENATOR SHOWER asked when the interest rate would be set.

MS. AMY answered that the expectation for the bond issuance would be early to mid-third quarter 2022. She stated that ARRC issues tax-exempt bonds, so its rates are a bit lower than a regular treasury rate or corporate bond rate. She stated that ARRC is in the process of getting an underwriter, but she would have more clarity on rates in the coming months. She highlighted that ARRC has built in some cushion into the rates given the current financial environment.

[2:02:50 PM](#)

SENATOR KIEHL asked what assumptions ARRC used for passenger counts or vessel size. He said he was unsure whether the passenger fees were per person or if it was based on vessel tonnage.

MS. AMY responded that the charges are per passenger, and the tariffs are posted to ARRC's website. She explained that fees are associated with passengers who embark on a cruise ship. Once the passenger terminates in Seward, the same fee applies. She stated that over 200,000 passengers traveled to Seward in 2019, 180,000 passengers were estimated for 2022, and ARRC anticipates that ridership would have some ups and downs but gradually increase overall.

[2:04:21 PM](#)

SENATOR KIEHL asked for the amount of the tariffs. He estimated that the fees would be \$15 to \$16 per passenger to cover the debt.

MS. AMY replied that the improvement fee tariffs are listed in the freight section tariffs under customer tools. She stated that Seward would charge a \$15 improvement fee beginning in 2022 to help pay for the dock project. Passengers would also be subject to a combined service fee and facilities fee of \$12. The grand total for fees per passenger is \$27.

[2:05:27 PM](#)

SENATOR BISHOP asked if ARRC could cover the cash flow if the estimated number of passengers did not travel.

MS. AMY answered that she believed ARRC could do so for a period of time, which would give it the flexibility to restructure it if needed. She stated ARRC has built a safety net into its projections.

[2:06:17 PM](#)

TIM SULLIVAN, Director of External Affairs, Alaska Railroad Corporation, Anchorage, Alaska, responded to earlier questions. He confirmed that ARRC dredges the harbor in Seward every 8-10 years; it was last dredged in 2014. He related that ARRC would do its own dredging, and it has a permit from the US Army Corps of Engineers. He acknowledged that ARRC would need to dredge deeper for the larger ships, but it will still maintain the 8-10 year schedule.

MR. SULLIVAN reported that ARRC owns all of the submerged lands for the length of the dock.

[2:07:06 PM](#)

At ease

[2:07:52 PM](#)

CHAIR MYERS reconvened the meeting.

[2:08:05 PM](#)

JANETTE BOWER, City Manager, City of Seward, Seward, Alaska, stated that the Seward City Council adopted Resolution 2022-013 to support the Alaska Railroad Corporation's efforts to secure funding for the Seward Passenger Dock Project. She said ARRC provided technical information about the dock project. She stated that this project is vital to the City of Seward. The

closure of the current facilities would eliminate cruise ship tourism dollars, including the commercial passenger vessel excise tax (CPV) for the City of Seward and the Kenai Peninsula Borough. This project is vital to the community. She commended the Royal Caribbean Cruise, Ltd. as a good partner committed to the Seward port. The building is used in the off-season by many organizations. For example, the community held a Lidia Jacoby Olympic Watch party. She thanked ARRC for its partnership and allowing the community to use the facility.

2:10:01 PM

PRESTON CARNAHAN, Director of Destination Development, Royal Caribbean Cruises Ltd., Seattle, Washington, stated that Royal Caribbean is one of the largest cruise companies in the world. It has 60 ships with over five brands carrying over 7 million passengers annually. The Royal Caribbean International is the largest single brand. He reported that Royal Caribbean International, Celebrity Cruises, and Silversea Cruises serve Alaska. He noted the cruise ships serving Alaska have grown from 6 ships during the last full cruise season in 2019 to 10 ships in 2022. The corporation has been in Alaska since the 1990s, serving Seward for over 20 years. He characterized the partnership with the community, including the Alaska Sealife Center, as excellent.

2:11:42 PM

MR. CARNAHAN said ARRC has stayed in communication with Royal Caribbean Cruises, Ltd., providing support and the cruise lines are happy to support this endeavor. The company regularly makes berthing agreements and commitments, but it has not had an agreement with the City of Seward. He characterized working through the agreement to reach a long-term contract goal as a huge step forward. He stated that the Port of Seward is the northernmost port from Vancouver, British Columbia. The agreement will allow the cruise line to travel to Southeast Alaska, including Skagway, Juneau, Ketchikan, Icy Strait Point [near Hoonah], and Sitka will receive additional ships. The Ovation of the Seas is the largest ship in Alaska, and the cruise lines provide technical specifications to ensure that the dock being built will meet the ship and passenger standards. He offered his view that ARRC has done a good job doing its due diligence to ensure that the new facility meets all requirements.

2:14:26 PM

CHAIR MYERS opened public testimony on SB 218.

2:14:50 PM

TOM TOUGAS, representing self, Seward, Alaska, stated that Seward residents support ARRC's passenger dock project. He characterized it as important to the visitor infrastructure. He highlighted that this dock is used year-round. For example, three fuel barges are tied to the dock. These barges will haul fuel to Western Alaska. He characterized Seward as being a marine repair town in the winter. The ferries, tugboats, and vessels that haul fuel and equipment to Western Alaska all bring their boats to Seward in the off-season, but not during the cruise season. He stated that there is very little time when the dock does not have ships tied up, and even expanding the freight dock will not provide enough space for marine repair. While it is great for ARRC and the city to have a year-round anchor tenant, it is critical to the community to have year-round employment in Seward.

2:16:45 PM

CHAIR MYERS closed public testimony on SB 218.

2:17:04 PM

SENATOR SHOWER moved to report SB 218, work order 32-LS1514\B, from committee with individual recommendations and attached fiscal note(s).

CHAIR MYERS heard no objection, and SB 218 was reported from the Senate Transportation Standing Committee.

2:17:20 PM

At ease

2:19:08 PM

CHAIR MYERS reconvened the meeting.

2:19:32 PM

There being no further business to come before the committee, Chair Myers adjourned the Senate Transportation Standing Committee meeting at 2:19 p.m.